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Merging Cooperatives

Planning, Negotiating, Implementing

Abstract

MERGING COOPERATIVES: PLANNING, NEGOTIATING, IMPLEMENTING

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Guidelines for reorganization of cooperatives through merger, acquisition, or consolidation are provided. Planning, negotiating, and implementing phases of reorganization are covered. Items from actual combinations of cooperatives are reported as they relate to phases of the reorganization process.

Key words: Cooperatives, reorganization, merger, consolidation, acquisition, negotiation.

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Preface

Cooperatives reorganize most frequently by means of merger, acquisition, or consolidation. No matter which method is selected, a three-phase process— planning, negotiating, and implementing—is required for the formation. This report contains guidelines and related details for these stages. It also offers data from actual merger experiences.

The number of cooperative reorganizations occurring each year and the amounts of sales and assets they represent are considerable. The impact these reorganizations have on members, employees, and communities suggests that cooperative officials plan such moves with care. Analysts, both within cooperatives and in outside consulting organizations, participate in reorganization feasibility studies and prepare guidelines for these activities. This report has been compiled for these purposes as well as to update and add to previous ACS work in this area.

Contents

Highlights and Conclusions

Reorganization through merger, acquisition, or consolidation—the usual methods—involves a three-phase process. The initial stage is planning, which covers external factors that may come into play and considerations relating to the internal workings of the proposed combination. An economic feasibility study is normally undertaken during this phase, followed by negotiations among the parties. Approval or disapproval of the merger agreement by the boards and memberships of the associations completes the negotiation stage. The final phase is implementation, which involves solving the problems that arise when plant and personnel are combined. Gearing up the new organization for smooth operation also occurs during this phase.

"People" considerations take priority throughout the reorganization process. Directors, employees, members and other patrons, and community leaders and ordinary citizens, all have a stake when the structure and operation of a cooperative is changed. Aggressive management decisionmaking, for example, may be critical in providing the momentum necessary to carry out the reorganization. But this may be blunted if management itself is subject to possible changes in its own makeup. Such situations raise questions of how management can best function decisively, informatively, and with a minimum of disruption during reorganization.

Certain decisions may have to be made during negotiations to prevent problems following formal reorganization. These include:

1. Designating size of the consolidated board of directors and setting new district boundaries, if necessary.

2. Reassigning managers and redesignating their tasks.
3. Closing or consolidating facilities.
4. Altering operating plans or procedures.
5. Changing financial structure or policies.
6. Reducing number of employees.
7. Developing a member relations strategy to maintain reorganization approval.

Reorganized associations are usually able to join major organizational areas and operating activities within a year. The majority require less than 6 months and only occasionally is more than 12 months required. The longer period is usually required for plant consolidation or elimination. Or it may be required for settling an issue that should have been negotiated earlier.

Associations reorganizing successfully often change in a number of ways:

1. They become a stronger competitive factor in the marketplace and strengthen their bargaining ability in product, supply, or financial markets.
2. They are able to halt the decline of one or more of the merged organizations.
3. They can provide favorable growth prospects because of a stronger operating and financial base.

Most associations consider communications vital to a successsful merger. Providing feedback from members and employees to management is viewed as essential to the success of the reorganization.

Merging Cooperatives: Planning, Negotiating, Implementing

Bruce L. Swanson[1]

Cooperatives, as with noncooperative firms, reorganize most often by merging, acquiring, or consolidating.[2] Other methods, such as forming holding companies and certain leasing arrangements, are also employed.

Reorganization is undertaken for a number of reasons. It can prevent financial collapse and provide stronger supervisory talent. Product or geographic diversification can be extended and economies of scale realized. Reorganization also can improve control of supply and marketing channels.

Cooperative reorganizations each year cut across most commodity or supply areas and involve sizeable amounts of sales and assets. Associations are often uncertain when initiating and carrying out such action. This report provides background material and guidelines that should be of assistance. It updates and expands on previous information about cooperative reorganizations and mergers.

Cooperative mergers involve a wide range of organizational sizes and structures. A variety of methods are used to restructure, and associations offer many reasons for their reorganization decisions. As a result, this report will be generalized so it can be kept to a manageable size.

An attempt has been made, however, to enhance the general nature of the material presented. This is done by including observations from cooperative officials knowledgeable about reorganization activity.

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[1]Program Leader, Management and Operations.

[2]Merger, acquisition, and consolidation are often used interchangeably. In fact, however, the terms refer to different types of joining. *Merger* involves combining the net assets of two or more firms, with one surviving. When two or more firms *consolidate*, their net assets are transferred to a new firm organized for this purpose. *Acquisition* results in control of a purchased business. The acquired organization may survive or be absorbed.

PLANNING FOR REORGANIZATION

Three types of planning must be considered when preparing to reorganize. The first is long-range planning. Here, the results of the fit, interaction, and probable results of combining organizations are considered over an extended term. Short-term planning provides for blending and smoothing the combination of facilities and personnel brought together in the joint organization. Included would be provisions for innovative management initiatives that bring recognition to the new cooperative's identity, stimulate business aggressiveness, aid employee enthusiasm, and increase member patronage. An additional planning phase has a somewhat different emphasis. It is concerned mainly with carrying out the immediate steps involved in joining two or more associations.

The longer range effects of reorganizing are often given minor attention. However, as indicated in another study:

"... the long-range plan which defines how a company will utilize its resources to achieve objectives should specify the contribution of merger/acquisition to the overall plan. Establishing company objectives, evaluating resources, and making a long-range plan are fundamental to the consideration of merger and acquisition—by both the acquiring company and the acquired." [1][3]

Another study makes essentially the same point but from a broader view: "... a potential acquisition must be looked at as a long-range investment and in the widest possible perspective. The economic conditions of a company's industry and its prospects are as important as the particular details of its operation." [2]

Strategic and tactical considerations both must be included in long-range planning. The strategic, or broader, view includes comparisons of external and internal growth possibilities. External growth occurs through reorganization with other firms while internal growth involves expansion of current activities or adoption of new functions.

In the external category, associations are likely to consider the long-term implications of joining with other organizations by means of merging, acquiring, or consolidating. Merger formation is the predominant type of reorganization among cooperatives. While use of this method probably has more tendency to result in problems during the joining process, less burden

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[3]Italicized numbers in parentheses refer to the references at the end of this report.

is placed on the financial resources of the acquiring component and its dominant position is likely to be maintained in the combined organization. Acquisition-type formations require that greater financial resources be available to the acquiring organizations but are likely to result in fewer problems during combination. Consolidations join components into completely new organizations and tend to be large-scale formations involving several firms scattered widely geographically. The ability to more easily adopt new organizational and operating policies and procedures is a particular benefit of consolidation formations. The full range of options and even modification of the usual methods should always be considered when planning for reorganization. Acquisition or consolidation arrangements or their modifications might be adopted to eliminate many of the problems connected with the more usual merger method. They might also allow more flexible arrangements in providing a joint operation satisfactory to all of the combining components. Discounted cash flow analyses are useful to compare the potential of various external and internal growth strategies.

Tactical decisions, which are narrower in scope, can involve four possibilities: (1) Expanding existing markets with commodities or supplies currently handled, (2) finding new markets for commodities or supplies currently handled, (3) handling new commodities or supplies in order to better satisfy demand of existing markets, or (4) handling new commodities or supplies for new markets.

The strategic-tactical position adopted will be developed according to a formal set of business goals. These usually include one or more of the following: Expanding commodity or supply lines, better utilizing production capacity, increasing market share, attaining a minimum size needed for obtaining adequate financial resources, or fully developing potential marketing capabilities, contacts, or channels. Unification goals may also be aimed at, among other things, acquiring goodwill, prestige, or brand names, offsetting technological obsolescence of facilities, utilizing waste or byproducts, or capitalizing on distinctive managerial talents.

Dividing plans into immediate, short-term, and long-term time phases may cause problems due to duplication and overlap. But the technique does permit development of the sequence in which various happenings of the combination are expected to occur. This will help determine when and where payoffs from the reorganization may be expected. The boundary between immediate and short-term planning needs has a particular tendency to blur. Immediate planning utilizes various legal, financial, and administrative techniques, frequently of a highly mechanical nature. Conversely, short-term planning requires innovative management.

Plans can be made prior to a reorganization for the acquired organization to remain active in some form or for some or all of its management personnel to be retained. This can often have a very positive influence if not outweighed by a basic lack of strength of the acquisition. While such plans may not be directly communicated beforehand to personnel of the organization to be acquired, indirect signals may be given. In view of its impact, it is important that this factor be given some attention in the planning process.

Introducing the Idea of Merging

Faltering business results involving slow or negative growth over a period of several years often initiate thoughts of reorganization. But even with normal expansion, it is not uncommon for management to reorganize as a means of gaining advantage. The suggestion may be provided by the board of directors. Or a trade, lobby, or similar group may provide information on the availability of an organization falling under its service umbrella. It can be based on outstanding positive characteristics of the reorganization prospect or favorable cost-benefit features when matched against proposed internal expansion. The reorganization idea may also be introduced by a necessity to acquire new technology, management, markets, production inputs, or additional financial resources.

Although usually conceived or considered in a business setting, some reorganization proposals may originate in situations outside the business arena. No matter where they arise, leadership of the associations involved must be alert for their appearance. The appraisal methods used should be flexible enough to consider proposals arising under a variety of conditions.

Initial Appraisal of Possibilities

A committee from the board of directors, management, or both, is usually formed by each organization considering a merger. Their task is to determine whether a reorganization proposal should be carried forward to the formal evaluation stage.

Some research has suggested that the committee from the acquiring organization develop criteria describing the qualifications required of firms to be considered for merger. [3] The belief was that this procedure would enable systematic evaluation of large numbers of prospects. While this procedure may appeal to associations with particularly rigid requirements, it may also cause outstanding prospects to be overlooked.

The idea of reorganization initially generates excitement. But this can disappear rapidly as the problems and difficulties connected with it come into clearer focus. To begin the appraisal, the committees should prepare statements indicating the purpose and goals of the merger. The analyses, consultations, and documentation required to evaluate and support reorganization can involve much time and expense. Steps should be taken at the outset to abort the plan if the likelihood of success seems questionable.

Determination by the committees of the possibility of bringing a combination of organizations into being is difficult. It will often depend more on correctly reading the negative factors at play. Particularly important are the management and directors opposing the move. Measuring the strength of their opposition is possibly the key in determining if a combined organization can be formed. Unfortunately, inflexible positions are often adopted at the outset, and are usually based on selfishness, self-protection, ego gratification, or just outright obstinacy. If this is the case, the smart move may be to direct resources toward internal growth. Another alternative would be to wait for a while to see if the reorganization climate changes.

Formal Studies of Economic Feasibility

If conditions are right for a merger, the next step for the committees is to sort out its basic strengths and weaknesses. Studies may be conducted by outside consultants or by analysts within the organizations. Appraisals of legal problems, financial structures, and accounting systems follow.

For large and complex reorganizations, more than one economic feasibility study should be considered. Although feasibility studies are expensive, the cost is justified if a reorganization effort with questionable benefits can be untracked before it reaches the stages where it is difficult to reverse. On the other hand, the studies can help revive interest in a reorganization effort that is stumbling because its benefits have not been fully defined.

The format of the economic feasibility study will vary among consultants. At a minimum, it should cover the following areas and include all of the organizations involved:

(a) Characteristics of the market served.

(b) Products handled and services provided.

(c) Market share-current and potential.

(d) Organizational structure and features.

(e) Operating facilities and capacities utilized.

(f) Financial features (including analysis of joint financial statements and cash flow projections).

(g) Estimated savings by eliminating duplication.

(h) Advantages and disadvantages of combining.

(i) Alternative courses of action and recommendations.

A particularly sensitive area involves the savings offered by eliminating duplicate facilities, equipment, functions, and excess personnel. Since these changes will affect the livelihoods of people and communities, it is necessary to develop them with considerable care.

Each participant in a reorganization appraisal must be willing to openly and honestly disclose all data requested. If any problems are anticipated, a legally binding document guaranteeing release of all information should be negotitated before the analysis gets underway. This step may upset some due to the risk in releasing information in situations where the merger may not go through. But the risk is no greater than the losses that might be sustained if the merger went forward based on incomplete information.

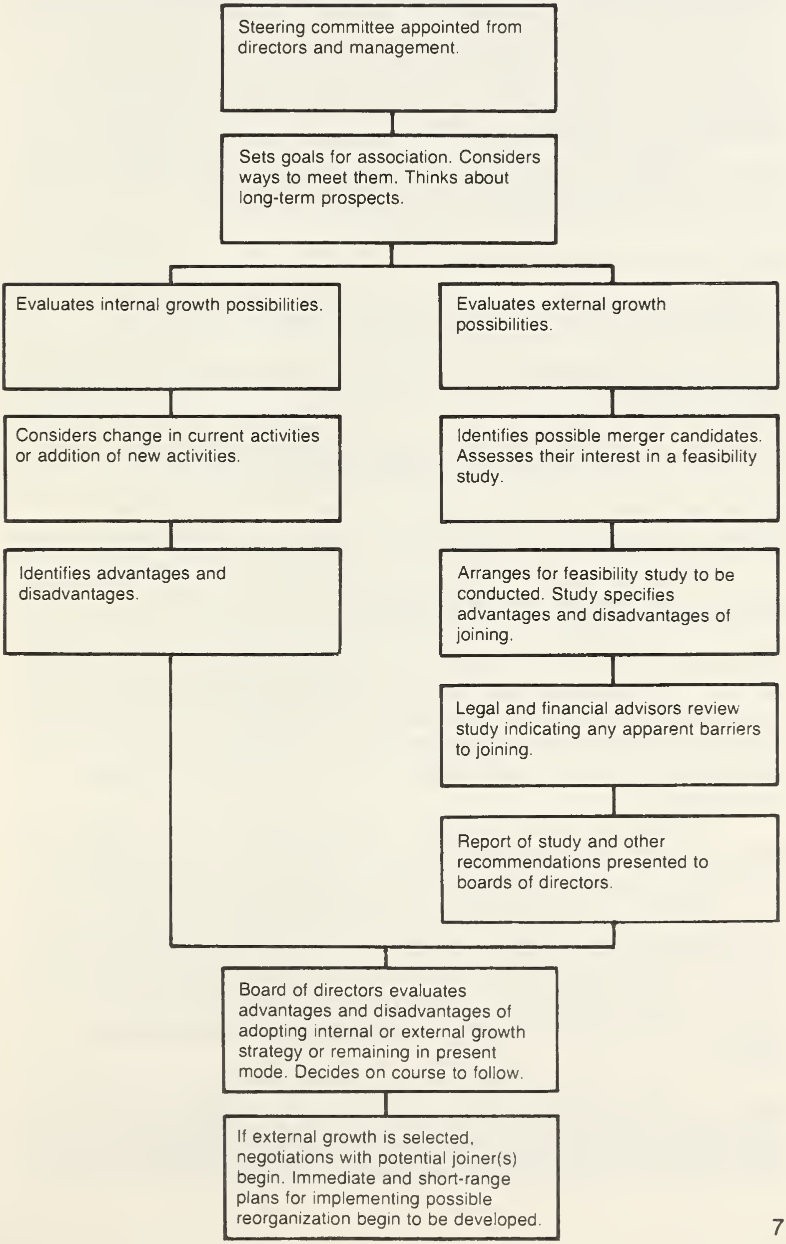
Legal and financial counselors should approve the economic analysis before it is presented to the boards. Without getting into a detailed study of the legal and financial requirements that will be necessary later, they should be able to point out major stumbling blocks, if there are any.

When initially considered, reorganization should not be evaluated in isolation. Along with the advantages and disadvantages of an external growth strategy, the associaton should also consider those that may appear by concentrating on internal growth. The process is illustrated in figure 1.

NEGOTIATING THE REORGANIZATION AGREEMENT

When directors of the firms considering reorganization are convinced that the move is justified economically, the stage is set for negotiations. Members of the initial steering committees will usually be appointed to a joint negotiating committee. This follows from their familiarity with the detail and complexities of the reorganization proposal up to this point. Certain board members or management personnel outside of this group may, however, have outstanding qualities that would allow them to

Fig. 1—Planning For Reorganization



participate with unusual effectiveness in negotiations. They can be appointed in addition to—or in place of—the original committee members.

The chairman should be appointed who can arrange for reasonable and workable concessions, arbitrate necessary decisions, provide judgments, and generally keep the process on track. It could well be someone from the outside whose interests are completely independent of the organizations involved. While he or she has no voting power, the chairman must, insofar as possible, enjoy the confidence and respect of all parties.

The work of the negotiating committee usually involves the following:

(a) Establishes policies indicating how the committee will function.

(b) Provides organizational and operational guidelines for the combining associations.

(c) Points out requirements in the legal and financial areas.

(d) Presents the negotiated agreement to the boards of directors for acceptance or rejection.

Policies of the Negotiating Committee

Some general policies should be in place for all reorganization committee activity. These call for agreement on a record of the meetings, on releasing information on the status of reorganization proceedings, and on settlement of disputes. They also cover confidentiality of records, selection of professional assistance, and allocation of meeting expenses among the associations.

Record of Meetings Detailed minutes must be kept of all negotiation proceedings. They must capture all detail to enable committee members to review the discussion taking place and the motions entered. Since negotiating responsibilities are sometimes completely new to committee members, opportunities to reconsider various materials presented will be of considerable importance. The recording secretary should also be an outsider, whose appointment is the responsibility of the committee chairman.

Release of Information While it may be possible to keep reorganization information confidential prior to negotiation, leaks usually develop once they begin. Both public and member relations programs should be in place

to counter negative reaction to the discussions. The programs should keep members, employees, and the community informed of the purpose of the merger talks and their progress. The necessity for continued open-minded study to determine all aspects of the proposal should be stressed.

Settlement of Disputes Problems whose solutions are not immediately apparent usually will develop during negotiation proceedings. Putting these aside temporarily while proceeding with other business can be risky. Removing roadblocks as they develop often proves to be the better, and less expensive, course. This may require that the chairman act to settle disagreements.

Data Disclosure Complete disclosure of all data is even more essential for negotiating sessions than for the economic feasibility study. If items were held back earlier, it is extremely important that they be released while negotiations are still in progress. This can permit the affected firms to drop out before more serious legal action is considered necessary. And it would lessen the expense involved if the process continued to string out. As it was earlier, the information furnished must remain confidential.

Input of Professional Advisers A reorganization requires legal and financial expertise. It may also need special assistance in engineering, marketing, accounting, and other areas. Advisers in these fields will sometimes play a more dominant role in negotiation proceedings than should be allowed. This occurs either through their own aggressiveness or because of the desire of negotiating committee members to be led. Members of the committee should dominate in the negotiating process. Advisers' participation should be restricted to preplanned sessions where their expertise is required.

Allocating Committee Expenses Expenses of the negotiating committee will become part of the cost of reorganization if negotiations are successful. The burden is usually shared equally by each firm when negotiations are not successful. However, if firms are of considerably different size it may be appropriate to share on the basis of sales volume or equivalent measure.

Organizational and Operational Guidelines

In planning the organizational and operating structure of the new association, the negotiating committee must decide whether to adopt old policies or discard them and come up with something new. The committee must also recognize the boundary between its own responsibilities for policy

formation and the responsibilities of incoming management for program decisions. It is also necessary that the board of directors of the new association have some leeway to establish guidelines. This should be considered when the committee is making policy decisions.

Policy matters that can properly be considered by the negotiating committee will include:

(1) Defining the objectives of the combined association.

(2) Developing a program for unifying operations.

(3) Combining the boards of directors.

(4) Selecting management and defining its responsibility.

(5) Selecting the name of the new organization.

Objectives of the New Association Specifying the overall goals and philosophy of the new organization is a task often postponed in favor of those that can be more easily accomplished. A statement of the basic objectives, however, will help the organization get a strong start. And it is even more important if the objectives differ markedly from those of the previous associations. The objectives should cover the type of business, products, services, locations to be served, the customer base, and similar broad areas of interest. The objectives drawn up will usually be refined by legal counsel and be made a part of the bylaws.

Program for Unifying Operations Determining which facilities are to be closed or downgraded when firms are combined and which functions are to be eliminated or changed is a delicate task. While the textbook solution may call for economic reasoning, organizational politics and strong-willed personalities often enter into the picture. Concessions may be required that block some features of the reorganization as originally planned. They should not be damaging enough to discontinue, however. The negotiating committee must maintain a diplomatic course that preserves the ability to implement most of the important changes required over the long term. At the same time, it must find ways to minimize damages of carrying excess baggage over the near term. In any case, a timetable must be developed to give members, employees, and affected communities ample time to adapt to changes. Outside pressures to make changes to the timetable should be strongly discouraged once it has been established to the satisfaction of all negotiating parties.

Combining Boards of Directors The manner in which directors are to be combined is also a touchy problem. The prestige and authority of their positions, along with any monetary benefits involved, make many directors reluctant to leave before their term expires. A consolidated board composed of most or all directors of the firms combining may be too large to function efficiently. The negotiating committee is thus faced with the decision of reducing board size or stumbling along with a large consolidated board for a while. When the latter course is selected, attrition will hopefully take care of the surplus.

Offsetting measures can be used also to blunt problems connected with excess directors. Initial or expanded use of committees, particularly an executive committee, can be put in place. This will enable a core group of selected directors to be responsible for most of the important decisionmaking. If this strategy is used, the negotiating committee will have to assure that the executive committee is fairly represented by each joining organization. Decisions of the executive committee will also have to be voted on by the full board before they can be implemented.

If board size is to change immediately, the negotiating committee will have to decide who and how many directors will be on it, and whether districting should be based on membership number or business volume. Unfortunately, few definitive rules are available to aid in making these judgments. Board structure used successfully in the past would certainly be a good starting point for discussion. The primary guideline is that any decisions fairly reflect the best interests of the combined membership.

Selecting Management The negotiating committee should leave management selection to the new board of directors. Selection should be handled in such a way that the managements of all combining associations have a reasonable chance of being appointed to the positions available. After the initial management team is put together and given an opportunity to prove itself, future selection of management personnel should be the exclusive responsibility of the general manager. As much freedom as possible should be given the general manager in developing the type of management group he/she feels is necessary. Organization charts showing the proposed initial management structure of the new association should be constructed. Formal job descriptions for individual directors and managers must be prepared. Both will be helpful to the negotiating committee and the initial board of directors.

Agreeing on the Association's Name Selection of a name for the new organization often involves extraordinary tugging and pulling before

agreement is reached. Organizational pride will cause some reluctance to change. Associations are concerned that if their name is left out of the new title, it indicates that they were weak and were "taken over." A name change can also involve considerable expense for new displays, signs, and other advertising and promotional items. There is usually no problem when a larger firm consolidates with a considerably smaller one. The identity of the larger organization is often taken by the overall firm. However, when more equal size firms combine and a name change cannot be agreed upon quickly, the easiest solution may be to adopt a completely new name. This new identification, although costly, can help the organization get off to a good start. If promoted correctly, it can improve the association's image in both old and new markets.

Legal and Financial Requirements

Professional counselors are responsible for getting the negotiating parties to agree on legal and financial matters. Selection of a lawyer and a financial adviser with the necessary credentials are critical tasks and should be made at the beginning of the negotiating process. As cautioned earlier, their counsel must not evolve into the dominating feature of the negotiation process.

Among the more important areas requiring legal and financial advice are:

(1) Appraisal of assets and liabilities.

(2) Type of legal and financial organization to be formed.

(3) Estimated costs of reorganizing.

(4) Writing the bylaws.

(5) Miscellaneous legal matters.

Appraising Assets and Liabilities Problems may develop when the assets, liabilities, and member capital of combining associations are appraised. Assets are usually valued as they would be if the consolidating organizations continued to operate independently. In some cases, liquidation value, collateral value, or other valuation basis may be used. Unless immediate disposal of assets of one or both associations is contemplated, book values are generally selected. However, when the joining organizations differ considerably in such areas as depreciation rates, debt writeoff, salvage valuation, or properties of windfall potential, some procedure other than book value will have to be used. In these instances, it may be necessary to employ an independent appraiser.

Differences in long-term debt burden can also be a problem for combining associations. Different financing arrangements and carrying charges can come into play in determining if the joiners can share the burden fairly. In the event the debt load is similar, it can be consolidated and restructured in a mutually agreeable manner. In the more difficult situations, one of the associations might have to dispose of some facilities to reduce its debt load. Capacity of remaining assets might be stretched for the combined association if this occurred. It may be necessary, therefore, that the negotiating committee take the long view. This would involve letting equal treatment of debts slide somewhat so the new organization doesn't trap itself. Such a situation might occur if more expensive new facilities or equipment were required in a short time merely to replace those sold so that debt loads brought into the new association were equal.

Forming the Legal and Financial Structure The legal structure of the combined organization must meet the requirements of various Federal, State, and local statutes, and the charters of the joining associations. It must be designed in accord with the unification method selected—merger, acquisition, or consolidation. Each reorganization is unique and requires the expertise of legal counsel in laying out its framework. The large number of merger provisions in the various State statutes alone (see reference [4]) will give some idea of why each combination tends to be unique. Therefore, legal and financial experts will have to assist in designing the appropriate system. Revolving capital programs are part of most cooperatives' financial structure, and are often a source of difficulty in attempting to combine organizations. Difficulties in consolidating revolving funds are increased by differences in equity held per unit of volume as well as differing payments that may be made on the funds. When there is little variation in these factors, the former revolving programs can be incorporated into a new one with only minor modifications. It will include the equities of the joining organizations and the scheduling arrangement formerly used. When a new program is necessary, it may be best to combine all outstanding years of revolving funds at the time of merger. A proportionate share can then be revolved each year, regardless of the original date, until the discrepancy is eliminated. The new organization may also borrow funds or sell assets to shorten the longer revolving fund to match the oldest year of the younger fund.

Costs of Reorganizing Costs associated directly with merger action should be estimated early as possible. These costs are often higher than first expected so a liberal estimating procedure should be used. Costs of merging are usually assumed by the new association as one of its first year's operating expenses.

Bylaws Preparation Preparing bylaws is usually the task of legal counsel hired specifically for the purpose. Legal representatives involved in the negotiating process may also be used. The negotiating committee works closely with counsel to ensure that the bylaws represent agreed-upon areas.

The bylaws will include formalization of all agreements made concerning directors, management, place of business, financial structure, membership, and similar matters.

Miscellaneous Legal Matters Among the areas that will require particular attention of legal counsel are Federal income tax laws and rulings and Federal antitrust laws and regulations. Legal assistance may also be needed to negotiate with dissidents who are opposed to the reorganization.

Bringing the Proposal to Vote

When a reorganization agreement has been reached, it will be presented for approval to the directors of all associations involved. The boards or their representatives will usually meet with the negotiating committee several times to develop at least some aspects of the agreement. Therefore, their sentiments can usually be sensed by the time the agreement is ready for approval. If their negative feelings seem strong enough to offer the possibility of derailing the agreement, the negotiating committee may be able to sweeten some of its provisions. Concessions can be offered in one area to offset negative feelings in another area. The usual practice is for the negotiating committee to continue modifying and adjusting the agreement until approval is reached.

The directors will indicate acceptance of the reorganization agreement by formal board resolutions. Approval by at least two-thirds of the voting membership of each joining association is usually required for final endorsement. To strengthen the probability of a favorable vote, an intensive publicity, communications, and member- and public-relations effort is recommended.

Research at Pennsylvania State University supports the importance of cooperatives mounting a strong communications effort with their membership. [5] This program may be crucial in winning approval not only of the merger effort underway but future reorganization proposals as well.

While only a limited number of reorganized associations were involved in the study, some of the findings are applicable elsewhere:

(1) Members who support a merger do so primarily on the basis of economic reasons. Those who oppose it do so for reasons which are not primarily economic.

(2) Members who favor a merger are much more active in their support than those who oppose it are active in their opposition.

(3) Members who are undecided and indifferent toward a merger appear to use the services of the cooperative but have little interest in it otherwise.

(4) Members who oppose a merger use the services of the reorganized cooperative almost the same as members who supported the merger.

(5) Members who support a merger are, on average, larger farmers, younger, and have more formal education than those who oppose or are undecided. In addition, they belong to more cooperatives and are stronger proponents of the cooperative philosophy. Those who are undecided earn a higher percentage of their income off the farm than do the other two member groups.

(6) When economic gains and member control are both perceived to be high, a large percentage of members favor the merger. When both are perceived to be low, very few members favor it. When one is high and the other low, the members are quite divided in their support.

(7) If a cooperative member opposes one merger, he is likely to oppose other mergers even if the first merger proves to be successful.

(8) The success of one merger may discourage further cooperative growth via merger. Many members who support an early merger but oppose a later merger are satisfied with the situation as is. They believe that further mergers would jeopardize the quality of the cooperative as well as individual member control. It appears that this group constitutes the most effective opposition bloc. They have expressed much more interest in cooperative affairs than those who oppose all merger effort. They also express reasons for opposition that are more substantial than those offered by the thoroughly antimerger members. Thus, success of future cooperative mergers may depend upon the ability of management to convince these members that gains are forthcoming. It will also depend upon blocking the efforts of members who will oppose merger proposals regardless of their net benefit.

Major steps in negotiating and ratifying formation of a reorganized

cooperative are presented in figure 2. It is particularly important during this phase that areas be noted in which particular difficulties are likely if decisions lag until after the reorganization. The last section of this report, covering experiences of cooperatives that have undergone reorganization, indicates several areas that may require early decisionmaking. Others will likely become apparent during each particular reorganization negotiation.

IMPLEMENTING THE REORGANIZED ASSOCIATION

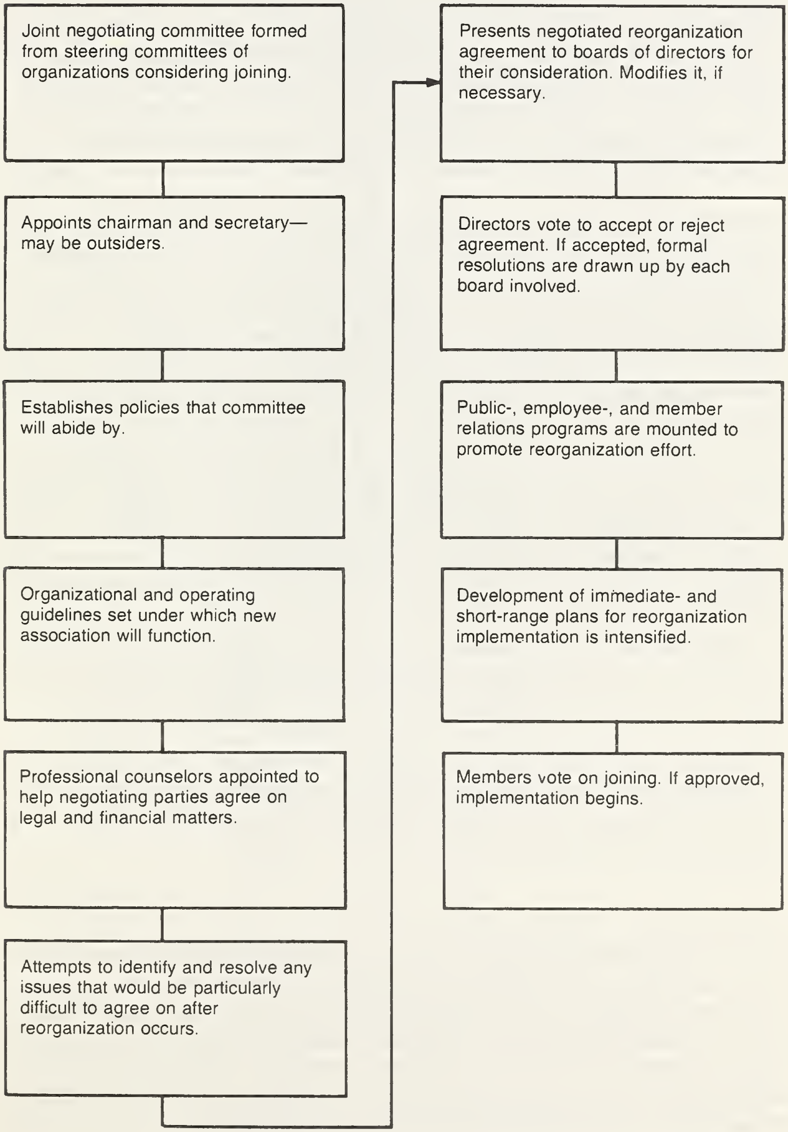
Combining operations of two or more organizations that may have been competitors can be troublesome and frustrating. Because cooperatives are member owned, they sometimes undergo additional stress because their members are more actively involved than they would be as mere corporate shareholders. As with most other business activity, appropriate and adequate planning, decisionmaking, and implementation can do much to lessen the strain.

Actual reorganization—as with planning and negotiation—involves a number of actions. A blend of conventional and unusual techniques must be used. While a number of features of each reorganization is common among all, unique details characterize each combination. This also pertains to associations that have gone through more than one reorganization. Management and directors may have developed experience through an earlier reorganization, but they can still be uncertain as to how the new organization should proceed. Therefore, professional consultation may be as important in implementing as it was in engineering the combination. And even with professional help, it is possible that some costly mistakes will be made.

A deadline for getting the organization up to operating standards must be set immediately after reorganization. Tasks must be identified and studied to determine how they can be most efficiently accomplished. Goals should then be established that allow reasonable time to perform the most demanding ones.

People-oriented areas of the business should receive considerable priority when preparations are made for getting the combined association underway. This would include the membership, board of directors, employees, and the general public. Drawing lines of communication, circulating plans and programs, and enlisting and encouraging support for the new association are of primary importance.

Fig. 2—Negotiating and Ratifying the Reorganization Agreement



A strong personnel program is particularly necessary. Previous employees must be spotted in positions where they can make the greatest contribution.

Well-qualified outsiders must be hired when candidates from within are not available. Employees whose talents are no longer required must be removed tactfully and with satisfactory amounts of compensation. Any discrepancies in pay or benefit scales that exist among the organizations must be ended quickly. And, generally, an atmosphere must be established in which employees feel they have a future and a chance to progress.

The enlarged association may demand a management structure considerably different from any of its predecessors. This has both negative and positive features. The negative side is that additional change is thrust upon the new association at a time when it must deal with all of the other changes in facilities, personnel, and processes necessary to begin functioning. But it is positive from the standpoint that management upgrading will probably occur sooner. Any pockets of weak management can be removed and, at the same time, greater management specialization may help to overcome problems connected with maintaining employees' previous status. The need in the larger organization for specialists and team approaches in the solution of problems will lead to a more complex decisionmaking system. More involved communication and control procedures will be required. Improved monitoring of the entire management process resulting should strengthen operations considerably.

Providing for the needs of members is what the cooperative must continue to emphasize. As the combined association is put in place, the situation must be tracked carefully to assure that there is no reduction in service to patrons. The competition may be ready to capitalize on any problems between the new organization and its customers. Adequate "preparation" of the membership prior to actual combination will do much to lessen concerns in this area. But additional emphasis on maintaining levels of patronage must take place immediately after the merger.

While problems in the employee and membership areas have first priority, those in the operational and financial sectors are not far behind. Use of new production processes and equipment, and facility consolidation or rearrangement, often require considerable adjustments. In the financial area, the new association may revamp its budgetary structure and utilize an expanded lender base. It may also put more emphasis on cash management and inventory control systems and place more importance on controlling the cost of borrowed funding for the various enterprises.

Synergy

The financial area is often a prime synergy source (synergy exists when the net returns from a combined organization are greater than the total of those that would be expected if its joining components stayed single). A combined organization may be viewed as less risky in the marketplace, leading to increased availability of funds, more favorable lending rates, or both. Better cash flow management is likely through adoption of upgraded systems. Use of more sophisticated accounting systems will enable the new organization to adopt better methods of planning and control. The savings attained by these methods will likely override the costs of the new accounting procedures. Centralization, and initial or expanded computerization, of accounting tasks can result in substantial savings in clerical expenditure. It can improve the timeliness of data analyzed, the latter being particularly important since the information is useful as a decisionmaking tool in many areas of the organization. Initial accounting statements after reorganization are critical for management. They can indicate how the new organization is adapting and progressing, and will be able to make necessary changes.

The marketing and administrative areas also have early synergistic potential. Near term, the new association should be able to unify advertising and utilize the strength of individual product lines to upgrade the overall marketing effort. It should also be able to increase the economies available through consolidated transportation, warehousing, and sales efforts. In the administrative area, elimination of duplication in personnel and accounting departments and reductions in legal representation and consulting needs can be carried out quickly. Management may become more specialized and be afforded new opportunities by the greater resources.

In the production area, synergistic effects may be possible but often only over the long term. Plant closures, construction of new facilities, changes in production processes, joining operations of the combining cooperatives, and adjusting for differences in the quality and experience of personnel all require time and effort. Costs of speedup in these areas can be considerable, particularly to correct the errors that may result.

If major operating and associated activities are large and involved, will require much time and skill to effect change, and are expected to react slowly to those adopted, initial efforts may better focus on support operations. The support sectors would include accounting and audit, engineering, field staff, insurance, legal, member relations, personnel, and research and development. In many situations, changes in the support sectors can be implemented faster than those in the major operating areas. If

this happens, some adjustments may be necessary later in the support areas to permit proper interaction with the operating area changes.

Priorities may require bringing some segments of the reorganized association up to full speed before others. The synergistic potential of all areas should be listed and those with the highest potential should be implemented earliest to the extent possible.

Organizational Areas

Membership Retaining and enlarging the business of the entire group of member and nonmember patrons is critical to the association's success. Media messages, meetings, and personal and written contact should be used to generate interest and patronage. Any changes in policy or procedure resulting from the unification should be clearly and promptly communicated. Efforts should begin at once to familiarize regular and potential patrons with the new cooperative name, logo, and different trade names and brands if such changes are made. If facility closure or consolidation is planned, the affected membership should be alerted as soon as possible. Effective communication of the advantages of such moves can go a long way toward retaining a considerable part of previous patronage.

Board of Directors When the initial board of the new association is composed of most or all of the directors of the joining associations, it often serves only on an interim basis. When the first annual meeting is held, a new board composed of fewer directors is elected to represent the combined memberships. A committee may be formed within the interim board that permits a relatively small number of board members to oversee most of its business. They will recommend most of the decisions to be made by the full board. The interim board must take steps to enable management to operate effectively in a situation that is likely in at least some state of confusion. It is necessary that a fine line be steered, however. The initial board must be neither so forceful that it feels required to interfere in management's business nor so awkward that its decisionmaking ability slows down.

Employees Keeping the employees of the combined organizations functioning in a normal manner during a reorganization is difficult. Employees are understandably concerned when they do not know who will be retained or let go, who will be required to change positions, or who will have to transfer to other locations. Making decisions in this area and clearing the air for normalization of business duties is one of the first tasks that the new management will have to undertake. It is also one of the most essential and should be accomplished as rapidly as possible.

Pay and benefits should be standardized so persons with the same responsibilities receive equal compensation. Employees assuming more responsibility in the same or higher positions should receive compensation increases. If some personnel must be demoted and cannot be paid at their previous rate, they may have to be let go. This is so their probable disaffection with the new association does not spread to other employees.

While the ideal situation would be to fill each position with the best person available, such is frequently not the case. Agreements during negotiations may require that selected employees occupy certain positions in the new organization. They may also require that long-term or otherwise favored personnel be retained in some position. The agreements also often provide that a fair allocation of employees from each joining organization will be slotted in the new association if an overall reduction of employees is anticipated. Although selection of personnel, particularly those at the manager and supervisory level, may not be completely independent, decisionmakers will usually have some flexibility in selecting personnel.

If extensive personnel changes are planned, it may be wise to think about getting them developed early in the post-reorganization period when many changes are occurring. This may give those directly responsible for managing the positions to be filled more clout in the selection process.

General Public It is wise to keep the public informed about a reorganization to squelch rumors and still community fears. It can also preserve a favorable image when facility closure/consolidation is considered with its accompanying loss of employment and tax revenues. Stressing the association's enhanced growth potential and economic impact on the community may help draw more favorable rulings from administrative and tax officials. It can also strengthen the organization's potential from the standpoint of suppliers and customers.

Support Activities

Accounting and Audit The firm participating in the feasibility study and aiding the negotiating committee should be the prime candidate to handle accounting and audit requirements. If other firms have been used by the joining organizations, they may also enter into consideration. If a previously used firm is considered, of course, it should be kept in mind that the reorganized association will likely be considerably larger and more complex than previously.

Opportunities to upgrade the computerized activities of the new association

by adding more powerful equipment and more experienced staff, must be carefully appraised. Costs and benefits must be weighed in a realistic fashion. The evaluation must be stripped of any glamour that may attach to increased emphasis on the computerized approach.

The ease with which firms' accounting systems are combined will depend upon a number of factors. Differences in size, complexity, type of business, and financial structure will be the leading factors. Use of the same or different accounting firms by organizations joining and the degree of these firms' experience and expertise will also have an impact.

Different adjustments will also be needed if one association's system has been computerized and the other has not. If both systems have been automated, differences in the type of computer system utilized may come into play.

The accounting systems previously used by the joining organizations must function alongside the newly developed system until the new system is working smooothly. This is particularly necessary if the system is being computerized at the same time or if different existing systems must be made compatible. The new system must be set up carefully because the potential for disaster is considerable.

The ability of an accounting firm to train and assist employees and design a computerized management information system should also be an important factor in the selection process. Improved decisionmaking capabilities are particularly important to a reorganized association whose executives have not previously been exposed to such systems.

The financial statement of the new organization cannot entirely reflect the effects of the combination. External economic conditions impacting on the reorganized association are constantly changing. Therefore, an unbiased reading of reorganization results entirely attributable to the merger may be difficult. A reasonable period of time must be allowed for the pluses and minuses of the combination to net out.

Engineering Cooperatives that have engineering departments use them for installation, adjustment, and maintenance of all facilities and equipment. Engineering sections should be at the forefront in situations where the new association must deal with problems of excess capacity. Capacity adjustments are often among the principal reasons for a reorganization being considered in the first place. Therefore, engineering personnel may be called on to provide assistance as soon as the new organization begins to come together.

The engineering section can close facilities, rearrange equipment, balance production processes, and plan and arrange for the improvement of existing equipment and facilities. It can also assist in the purchase of new equipment and facilities based upon the improved business prospects and strengthened financial condition of the new organization.

As part of the new organization's planning efforts, the engineering section should draw up a detailed plan indicating efforts and expense necessary to improve plant facilities and operations over the long term.

Field Department The one-to-one relationship developed by field personnel with cooperative members can be particularly useful in a merger, such as educating patrons on the benefits of the new organization and encouraging continued patronage.

Standardizing the practices and procedures of the field force of the combined organization is an immediate necessity. This will ensure that the overall membership is being treated uniformly and will minimize charges of favoritism. Weaknesses in the field organizations should be weeded out immediately as should employees who have a negative reaction toward the reorganization. The face-to-face relationships between field personnel and patrons require a positive and professional approach if a favorable image of the new organization is to be built. If the organizations' resources have not been sufficient to establish a field force, the increased financial strength of the new association should. Field personnel should be at the forefront in creating, maintaining, and expanding markets.

Legal The reorganized association may require more sophisticated legal assistance due to its greater size and complexity. It may also be necessary to establish an in-house legal department or maintain a private firm on retainer. Selecting either is a task that should be undertaken with care. Much checking and consulting on qualifications is required before the final selection is made. A bad selection can be costly.

While savings in the legal area are often promoted as one of the pluses of reorganization, it is not always the case. More talented legal expertise may be required for the new, larger organization and on a more frequent basis. While a reasonable ceiling must be maintained on legal expenses, the critical nature of lawyers' actions must be considered. This requires that reorganizing associations rate quality of performance very highly in any evaluation of costs.

Insurance Combining insurance policies of the firms joining may give the

new association greater leverage in selecting coverage. The large number of plans available and the great variation in cost among them should encourage the new organization to examine a broad range of policies. More favorable features may be provided and lower premium costs gained. Even if a previously used insurer is selected, by opening the process to competition more favorable terms are likely to be offered.

In any case, it is imperative that no lapses are permitted in insurance coverage because of technical irregularities in the reorganization process. It is particularly important in the case of Workers' Compensation Insurance (WCI) where several States require election between private or public carriage of WCI before unified operations begin. In the absence of such coverage, the association will become liable for injuries sustained by employees.

Member Relations The importance of keeping the combined organization's membership involved and informed has been noted before and cannot be overemphasized. If the member relations unit needs strengthening or if policies and procedures need upgrading, formation of the new organization is a good time to begin. The member relations programs of each joining association should offer something positive that can be adopted. Use of a wider range of communication channels and techniques should overcome any perceived loss of member control.

For merging associations that currently have good member relations staff and programs, there is the opportunity to achieve savings.

Personnel The combined personnel department must develop job descriptions, beginning with key staff members and working down, as soon as possible. This will enable each employee to fully understand individual duties and responsibilities under the new management. If the strengthened resources of the new association permit addition of jobs not found in the old organizations, the position description will assist in defining their requirements.

Planning for the combining of staffs is often developed to blunt expected negative reactions. Each staff will have a variety of backgrounds, experiences, and operating methods that can be used in a positive fashion, however. If only one organization's operating methods are adopted, if communications break down, or if the shakeout period is shortened to permit only minimal change, opportunities for improvement may diminish.

Research and Development Product research and economic planning

opportunities not previously possible may be undertaken after the merger if the resource base of the new organization is strengthened. Many associations that merge have no experience with this type of activity. They may decide to form a department on the basis of what the competition is doing or based on a suggestion from within or outside their organization. In all cases, a careful evaluation should be made of the need for such internal staffing and the payout to be expected. It may be decided to use outside consultant services when required and to move the freed-up resources to other areas where they can have a more valuable impact. This may be the wiser course for those associations with internal research or planning activity having only marginal value.

Operating Sectors

Marketing, Purchasing, and Related Services At the onset of combined operations, it is necessary to standardize policies and procedures. They should also be upgraded quickly and with minimum disruption. The end requirement is to develop an operating system that will preserve the customer bases of the merged associations and lay the groundwork for new growth.

Pricing Policy—If the merged organizations have been competitors, pricing policies for their competing product and service lines may have been quite similar. If these pricing methods have been responsible to some degree for weakened operating results, price changes proposed to improve those results must be undertaken gradually. If not, competitors may be drawn in to disrupt the market. Where product lines are completely different, price changes will also have to be closely evaluated. The threat posed by potential competitors and the actions they might take in light of different pricing procedures will require careful study. A considerable decrease in costs, for example, might indicate that price reductions could be made with little fear that the competition would be able to react in a forceful manner. Standardardized policy to preserve customer goodwill should be the overriding concern.

Credit policy—Credit policies of organizations that once competed are also likely to be similar. Those that have not competed or that have unlike product lines may be different. Here, too, development of a uniform credit policy that is competitive and that maintains the customer base intact is the prime requirement. If there is a problem of aged accounts receivable, this should be confronted firmly at the outset of reorganization. The credit policy should be tightened up if overaging has been a continuous problem. In no case, and this should be spelled out in the reorganization agreement,

should the new association begin life overly weighted with aged accounts due.

Advertising— Advertising and promotional strategies may have to be revised after the reorganization. If the new organization adopts a name different from any of the merged firms, along with new product names and labels, considerable emphasis will have to be placed on establishing new identification. Even if a previously used organizational name is selected, and product names and labels remain the same, there will be an identification problem. In this case, steps will have to be taken to "preserve" the trade territories of the joining units whose names have been dropped.

If an expanded product line is handled by the new association as compared with those of the merged organizations, problems may arise in allocating promotional dollars among products. Management may concentrate dollars to move higher margin items while members want other items promoted in which they have greater self-interest.

When a facility needs to be closed or consolidated, publicity will be needed to point affected patrons to alternate facilities. If different names and logos are adopted, facility and equipment markings will have to be changed. Priorities will have to be set as to where the changes are implemented first.

Building on the momentum generated by formation of the new organization will itself require advertising dollars. Entry into new markets will also require promotional expenditure. Additional advertising budget should be provided for these and other changes. However, some balance will have to be devised between fair treatment for each of the merged organizations.

Operating system—The entire sales-inventory-production-procurement chain will have to be looked at in some depth soon after the reorganized association begins operations. At the outset the emphasis should be on standardizing any areas of the merged organizations that could have a negative effect on customer goodwill. A questioning attitude by patrons usually prevails for some time, particularly where a merged organization has lost its original identity. It is critical, therefore, that any potential for unfair treatment be removed before it can cause problems.

Distribution No matter what the size or complexity of the combination, distribution usually turns out as an area capable of producing considerable economies. Many transportation and warehousing inefficiencies will probably be able to be eliminated soon after reorganization. Overlapping

routes, underutilized equipment and facilities, overcapacity, small scale purchases of fuel and other supplies, and lack of centralized maintenance facilities are just some of the possibilities.

If the joining organizations' distribution operations have been inefficient, outside management may be needed. If very extensive modifications and changes are required, priorities will have to be set to assure that the greatest payout results over the long term.

Finance Financing offered to merged organizations may be furnished both in larger amounts and perhaps at a lower cost, depending on the reduction in risk perceived by the capital source. While access to capital will likely improve, the documentation and other communication necessary to prove creditworthiness and to support capital requirements may change considerably. It will probably increase in amount and be considerably more expensive. The staff may be hard pressed to handle these increased responsibilities. They may also be busier discovering and evaluating sources of capital and determining how an increased but limited capital supply should be allocated among the various needs of the new organization. Additional personnel may have to be brought in from the outside. This introduces another unknown quantity into a management staff that is probably already undergoing a considerable shakeout. This may extend the time period for smoothing out the reorganization process.

Ways in which banking services are provided must also be analyzed carefully. Banks patronized before the merger may have been outstripped in terms of the services they can provide. The competition in this area and the substantial differences in both costs and packages of services that may be offered require detailed analyses.

Significant features of the implementing phase of reorganization are shown in figure 3.

OBSERVATIONS FROM REORGANIZED COOPERATIVES

Observations about reorganization were obtained from managements of associations that had gone through the process. They had been involved with almost 50 mergers or acquisitions between 1977 and 1983. About 10 percent of the formations were acquisitions and 90 percent were mergers. While the operating results of some were considered more successful than others, only one reorganization was reported as an outright failure.

Fig. 3—Implementing the Reorganized Association

Board of directors and management evaluate immediate- and short-range plans to get the new association underway.

Set time for association to get up to planned operating standard. Identify critical tasks. Establish goals.

Place priority on straightening out areas involving members and employees. Establish lines of communication, circulate plans and programs, enlist and encourage support.

Restructure operating and support areas according to synergistic potential. Set time required to effect action in each area.

Plan for optimum results when interdependency among operating and support areas requires scheduling at less than full synergistic potential.

Maintain implementation plan on schedule insofar as possible. Keep mid-stream changes to minimum.

Monitor implementation process closely for any adverse effect on the customer base. Consider long-term consequences as well as short-term results of any changes thought necessary.

Maintain close liaison with legal and financial counselors to assure that negative consequences do not result from restructuring.

Modify the long-range plan if changes required in the implementation phase suggest it. Otherwise, hold to course.

Considering Reorganization

Influences prompting one association to consider merging with, or acquiring, another organization most often included one or more of the following:

1. Program of aggressive action mounted by management officials to improve business opportunities and growth prospects.

2. Action of the board of directors encouraging management to reorganize.

3. Request by officials affiliated with an organization subsequently merged or acquired that it be considered for such action.

4. Need to obtain additional financial resources.

5. Information by a trade, lobbying, or similar group of the availability of an organization falling under its service umbrella.

6. An economic decision influenced by the "bargain" status of the reorganization prospect or favorable cost-benefits features when matched against proposed internal expansion.

7. Need to improve timeliness or accessibility in acquiring new technology, management, markets, or production inputs.

When reorganization was first considered, the overwhelming tendency was to keep the matter secret. In several instances, only certain board members and top managers were informed. Employees and members were rarely let in on the plan. This was the case both for the association proposing combination and that or those organizations which were to be the joiners. In a few instances, it was reported that the board or management of the *joining* association reacted negatively to the initial proposal of reorganization. In most cases, however, a completely open-minded situation existed.

The time between the first consideration of reorganization and the initiation of feasibility studies ranged from 1 to 6 months. One organization, however, said it took a year to initiate a feasibility study. In the vast majority of reorganizations, the acquiring partner focused on a single organization to be considered for combination.

Evaluating and Planning the Combination

In analyzing the strengths and weaknesses of a proposed combination, acquiring organizations tended to place primary attention on certain areas of the *joining* organization. Other areas were less significant or were a tossup with about equal numbers of acquiring organizations considering them of either greater or lesser significance.

More significant areas are:

1. Short term operating results (most recent 2 years).

2. Plant location(s), capacity, and utilization.

3. Financial structure and obligations.

Less significant areas are:

1. Long term operating results (most recent 5 years).

2. Current or potential unionization of employees.

3. Availability and cost of production inputs.

4. Market access.

5. Expected impact of government review of the reorganization proposed.

More or less significant areas are:

1. Organizational structure.

2. Management depth and talent.

3. Membership characteristics.

4. Employee utilization and productivity.

5. Business mix and diversification potential.

6. Transportation costs.

7. Synergistic potential in general.

Cooperatives used a full range of feasibility analyses to evaluate a proposed combination. The formal analysis usually consisted of a structured evaluation, relatively broad in scope, and with results usually communicated by written report. The informal evaluation was less structured, not always in report form, and general in coverage. It sometimes concentrated on a limited number of key items considered minimally necessary for reorganization decisionmaking.

Regional cooperatives usually relied on management or on private consulting firms when a formal feasibility report was required. Local associations tended toward the use of university or government consultants, or their regional's staff people. When an informal report was required, selected members of the organization's management staff were almost always charged with the task.

Cooperatives rarely called for two or more feasibility studies. In the cases studied, only some of the larger combinations called for multiple studies.

The feasibility reports were generally positive towards reorganization when combination of regional organizations was considered. For local associations, judgments by evaluators were almost as likely to be neutral or negative as they were to be positive. This would indicate that the original proposals for most of the regional combinations were carefully considered. It might also indicate that evaluators were less willing to give leeway to the small, usually weaker, local organizations, since they had fewer resources to fall back on if a wrong decision was made. Most analyses were completed within 6 months. The negotiations following required about the same amount of time.

After the boards voted for reorganization, the details of the proposal were presented to members for their vote. The time required between the director vote and the membership vote usually involved 3 months or less and frequently required less than 1 month. Thus, the entire effort, from the original idea for reorganization until final vote by the memberships, was usually accomplished within a year.

In most cases, reorganization proposals were approved. However, officials involved in a number of reorganizations during recent years said that more than 25 percent of their proposed reorganizations were turned down. They also said that the tendency may be increasing, particularly among the larger associations. All organizations in the survey recognized the critical nature of membership support. Most had developed strategies to help assure that it was sufficient when the time came.

All organizations stressed the importance of meetings and written communication regarding the proposed reorganization. They also emphasized that all members and employees should be involved. Informing employees of the prospect of reorganization before the proposal is presented to the membership was stressed by most of the surveyed associations. Enlisting the support of employees was considered essential in insuring membership approval. One association told of a 2-month "prep" period to inform employees and encourage member support. Another scheduled 6 to 8 weeks to communicate with employees and an additional 6 weeks for members. Still another thought it was important that the final negotiated reorganization proposal receive *unanimous* support from each board involved if maximum employee and member support were to be expected.

Certain decisions should almost always be made in the negotiating sessions prior to formal reorganization approval. Those include:

1. Size of the consolidated board of directors. Elimination of some directors when required. Determination of new district boundaries when necessary.

2. Reassignment of management and redesignation of their tasks.

3. Facility closure or consolidation.

4. Significant changes in operating policies or procedures.

5. Rearrangement of financial structure and change in policies.

6. Employee reductions.

7. Efforts to be made in the member relations area to maintain reorganization approval.

When reorganization was approved, most of the merging associations experienced little difficulty in joining staffs below the management level. Supervisory responsibilities were often expanded in the new organization. Compensation levels were also frequently increased, and significant improvements in employee attitudes and motivation were sometimes noted. Additionally, few problems were encountered in combining operating and staff activities. Once sufficient time had elapsed, most of the confusion and commotion died down and kinks associated with changes in practices and procedures were straightened out.

Most of the reorganized associations were able to combine major activities in 3 to 12 months. The majority required less than 6 months and only occasionally was more than 12 months required. The longer period was usually concerned with plant consolidation or elimination, or an issue that should have been decided earlier.

Managing the Combined Organization

The survey checked to see if managements from the joining organizations were blended proportionately in the merged association. It was found that most of the combinations involving regional associations and many of those involving local associations, particularly those of larger size, attempted to thoroughly blend their management staffs. Positions were assigned based on the numbers, types, and levels of managers brought in by each joining organization.

For the local associations, particularly those in the smaller category, there were often fewer opportunities to retain the acquired organization's staff. Sometimes they were reluctant to do so when the opportunity existed. In any case, several of these organizations reported that the consolidated management staff tended to be more unblended. Managers from the associations proposing combination dominated in leadership of the combined associations.

The former assignment of the initial CEO of the combined association was CEO of the association proposing combination in the case of all organizations surveyed. Only one CEO had been replaced since appointment, and this was because of retirement. His replacement was from the acquiring component.

Association managements tended to be attracted to organizations that were similarly structured. The use of strategic long-range planning was frequently a feature of the association proposing the merger. Categories of major products or services handled by the combined association were usually the same as those handled by the joining organizations. Increasing the diversification of the association was considered important because it would permit better utilization of labor, enhanced sales opportunities, and help counteract cyclical business conditions.

The number of directors on the board of the combined association was usually greater than on the board of any joining organization but less than the total for all joiners. For many reorganizations, plans were to reduce total directors before formal approval of the combination took place. Elsewhere,

similar steps were taken in this direction soon after the merger. Assignment of directors to committees was much more likely to be used on the board of the parent component of the reorganization than on the board of an acquired unit. Almost all of the combined associations' boards had a committee structure, particularly executive, audit, and compensation committees. Both components held monthly board meetings, almost without exception. Reorganized associations continued to do the same. Managements of the components reported to their boards almost exclusively on an oral basis. The managements of the combined association followed suit. Only a few parent components' managements reported both orally and in writing at the monthly meeting. The management of the reorganized associations continued in this pattern.

The policy of distributing proceeds of the combined association, in terms of proportions of cash and paper, always followed the pattern set by the acquiring association.

Where capital revolving periods were in place, the parent component's was often considerably shorter than the joining organization's. The revolving period of the combined association was usually the same as the parent organization's. Plans for instituting a satisfactory revolvement plan were a strong sales tool in merger endeavors. The survey indicated that members of some joining organizations encouraged mergers primarily to shorten their associations' revolving periods.

Securities in addition to those of a replacement nature were seldom issued when the combined associations were organized. A few associations reported, however, that some securities issued by their joining components were consolidated or retired when the combined firm started operations.

Cash transactions were usually involved when a firm was acquired. Mergers and consolidations usually included stock transfers or similar noncurrency transactions. These were adjusted to maintain previous balances of ownership, if necessary. Assets involved in the transfer were almost always transferred at depreciated book value. Reorganization tended to remove most or all of the problems connected with obtaining adequate finances. It had sometimes been a problem for the parent unit and had frequently been a problem for the joining organization.

Review of the reorganization proposal by government authorities, if required, was considered of minor significance. None said they were hampered in getting government approval for the combination if it was necessary. In the cases where it was necessary, approval was received in 3 months or less.

Results of Combining

All but one of the reorganized regional associations and about 80 percent of the reorganized local associations considered their combination a success. The regional combination that did not succeed was due primarily to a failure to communicate with joining association members. What they really expected the new association to accomplish for them was not known. The unsuccessful local associations were considered more likely to fail over the long term, although judgment was somewhat restricted by poor economic conditions at the time reporting occurred. Success or failure was usually apparent within a year.

In terms of prior expectations, results of the reorganizations were often more favorable than anticipated. The combined associations were particularly satisfied with improvements in marketing, financing, staff support, and overall management. They were only slightly less pleased with positive changes in supply, service, and transportation activities.

Significant ways in which the combination affected the joining associations were:

1. Introduced a more potent competitive factor into the marketplace; strengthened bargaining ability in product, supply, or financial markets.

2. Firmed the weakening business prospects of one or more joining units in the combination.

3. Prepared a base offering more favorable growth prospects for the future.

The joining units studied were usually either (a) fully merged into their acquiring partner's organizational and operating structure with little original identity remaining, or (b) merged but with many functions or activities still identifiable with the joining organization. Seldom was the joining component set up as a separate division or subsidiary, or as a jointly owned subsidiary with another organization.

Managements of the reorganized associations measured what had been learned from the merger and what they would do differently if they had it to do over again. Highlights of their responses included:

"Communicating with members is the most important factor. Don't promise anything you can't deliver. Improving communications with members when the reorganization is proposed, studied, and activated is the

most important factor that can be stressed. Many managers are too busy with other duties to place enough emphasis on this. Promises must not be made if they can't be delivered on."

"Communications is the key. Three or four weeks before final board approval, [I] made information [on the proposed reorganization] available to members of the management staff not previously informed. They seemed pleased with that approach...[I] would better inform employees below the supervisory level in any future reorganization...We should have hired an attorney who was experienced in mergers. Time and expense were required in covering his shortcomings...Members were guaranteed as good or better service than they had been getting. An atmosphere of trust must be created. Determine what is fair before anything is put together."

"[We] should have spent more time in establishing goals...In any future moves, [we] would have the number of board members and districting resolved beforehand. It may be touchy in trying to resolve it afterward...Possibly, more meetings with employees should have been held...If directors at the joining organization have set operating policy rather than management, a difficult situation has likely been created that will require straightening out...A firm attitude must be taken on employees; only the best should survive as employees of the consolidated organization."

"Within 6 months to a year, most merged organizations are pretty well absorbed. No lengthy period of absorption is needed...Modern communications technology and the computer assist greatly in merging organizations quickly...Administrative features of merging are down pretty pat...[We] have not had any problem with business going down for a brief period after merger before it rises again...Concentrate on improving the basic package of services offered to farmers when a merger occurs; do not be afraid to eliminate sideline businesses that are weak or strain resources even when much clamoring initially results."

"Be convinced that what the farmers want is clearly understood...Membership approval is the key to successful reorganization...Do not let a deteriorating financial situation force you into merger without thorough study...Be aware that former employees may be able to set up a business in competition with your own and the risk that this entails."

"When successful and weak organizations merge, the combined business usually turns up. [The] tendency is for the two organizations to go downhill

during an adjustment period before the combined business increases. Inefficiencies may be covered at first but eventually show up."

"Membership relations is the critical factor in mergers...[You] must give information in as much detail as desired. Management people from both organizations must be made available for discussion."

"[The] manager is the key individual in deciding whether a reorganization will work...[We] put emphasis on informing employees initially, then the membership. Employees were sold on the wisdom of merging...The support of county agents was also enlisted in merger support...At first, our members were worried about losing organizational identity, and the joining firm's pricing policies. Communication efforts were able to overcome these fears."

"Several mergers during recent years have involved as many as 7 or 8 cooperatives over a relatively short period of time. Some of these may have to undertake demerger. The skill requirements of management increase more rapidly as the size of combination increases. The size of many mergers may have outrun management skills available, with the result, a less efficient mode of operation...Fewer problems seem to crop up when a larger, stronger organization combines with a weaker organization or when a predominately grain organization merges with a petroleum or fertilizer cooperative."

"In merger proposals involving local associations, the managers usually work it out between themselves before it is proposed to their boards. They then usually offer the proposal initially to board members they feel comfortable with rather than the full boards."

"There had been problems for years at the organization that requested joining with us. It had refused to choose management that was generally accepted, with the result that the community was divided. We brought in a new manager, but he was not agreeable to all parties. The farmers drew up sides against him with the result that the joining firm went under a few years after the merger occurred. Some of its leadership is now anxious to rejoin, but we do not know how much volume they represent. In any case, we would not even consider it without commitments in writing (marketing agreements) from members. These were not required before, but now the climate is different."

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U.S. Department of Agriculture
Agricultural Cooperative Service

Agricultural Cooperative Service (ACS) provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The agency (1) helps farmers and other rural residents develop cooperatives to obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs.

ACS publishes research and educational materials and issues *Farmer Cooperatives* magazine. All programs and activities are conducted on a nondiscriminatory basis, without regard to race, creed, color, sex, or national origin.